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SIPDIS

SENSITIVE BUT UNCLASSIFIED

STATE FOR EUR/NCE  
STATE PASS USTR FOR DONNELLY/ERRION  
E.O. 12958: N/A  
TAGS: [ETRD](#) [PREL](#) [EINV](#) [PL](#)  
SUBJECT: Poland: Economic Relations with Ukraine

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SUMMARY  
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[1](#)1. (U) Sensitive But Unclassified. Not for Internet Distribution.

[1](#)2. (U) Ukraine is Poland's second largest CIS trade partner, after the Russian Federation (due mainly to energy imports). Improving trade statistics demonstrate the increasing significance of Ukraine to the Polish economy, with Polish exports to Ukraine up 30 percent to nearly \$2 billion in [1](#)2004. Meanwhile, imports from Ukraine increased 41 percent to more than \$1 billion in the same period. Despite this impressive growth, Poland's share of Ukraine's exports still hovers at just 2.7 percent, while Ukraine accounts for just 1.2 percent of Polish imports. Nonetheless, Economic Ministry officials believe Poland must assist Ukraine in its transformation of to a market economy, as well as in obtaining WTO and EU membership. End Summary.

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TRADE FLOWS: ENERGY RULES . . .  
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[1](#)3. (U) Poland's imports from Ukraine are dominated by natural gas, along with iron ore, ferrous metals and steel. For its part, Ukraine imports primarily spare parts and motor vehicles from Poland (see para 5). The overarching importance of energy supply is apparent from these products. According to Polish officials, completion of the Odessa-Brody-Plock pipeline is a key economic objective and will likely continue to influence energy-related trade flows.

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. . . BUT INVESTMENT MORE DIVERSE, ALTHOUGH SMALLER  
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[1](#)4. (SBU) According to a report by a Polish diplomat posted in Kiev, Polish capital investments in Ukraine amounted to \$153 million in late 2003, 56 percent of which was in the industrial sector and 27 percent in banks. At the end of 2004, the total value of all FDI in Ukraine was estimated at \$7.8 billion, of which \$200 million is accounted for by investments made by Polish businesses. The report identified Can-Pack Ukraine as Poland's biggest investor in Ukraine (the company makes packs and tins for beverages, relying heavily on automation technology). Polish investment accounts for over two-thirds of the Credit Bank's total capital. In addition, a substantial portion of Polish investment is currently focused in the manufacture of furniture, particularly, in Kharkiv Artemovsk, Ivano-Frankivsk and the Volyn region.

[1](#)5. (SBU) Unfortunately, recent Ukrainian government actions are responsible for some hesitancy in investment. Polish investors say their projects were hurt by a fundamental change in investment conditions in Ukraine in late March 2005, when the Ukrainian government abolished tax breaks for special economic zones. The move prompted protests from a number of foreign investors, forcing some to change their development plans almost overnight.

[1](#)6. (SBU) Polish media say the Ukrainian government is considering measures to compensate Polish entrepreneurs for their losses in a way that does not violate the principle of equal treatment for other business organizations. However, our contact at the Ministry of Economy said that Polish investment in Ukraine will be limited so long as the Ukrainian budget legislation maintains a de facto moratorium on free economic zones. She added that Poland faced a similar problem in adjusting Polish legislation to EU requirements. Meanwhile, total Ukrainian direct investment in Poland currently is estimated to amount to only \$350,000, a figure which is insignificant given the size of two-way trade flows. However, this figure may jump significantly this year due to one significant Ukrainian investment that appears to be moving ahead.

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AUTOS, STEEL MAY DRIVE UKRAINIAN INVESTMENT UPTURN  
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17. (SBU) According to press reports earlier this summer, the Polish Ministry of Finance initialed an agreement with the Ukrainian company AwtoZAZ providing for the sale of a Finance-held stake in the FSO car factory in Warsaw. At present, some 80 percent of FSO shares are held by the Korean conglomerate Daewoo. However, Daewoo has given up operational control over FSO. As a result, the Polish Government, which holds an approximate 20-percent stake in FSO, enjoys more than 80 percent of the voting rights. The GOP plans to sell its shares to AwtoZAZ. The Ukrainian company already buys most of the cars manufactured by FSO. These cars make up the largest item in Polish exports to Ukraine.

18. (SBU) Ukrainian Embassy Economic Counselor Sergiej Skrypko notes that another major Ukrainian investment, in the Polish steel mill Huta Czysta, should be finalized in October. He said that there are "complicated" legal issues slowing the firm's privatization, but that the Ukrainian company Industrial Union of Donbass, should acquire the Polish government shares in the fall.

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EU AND MULTILATERAL ISSUES  
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19. (SBU) Polish sources say the European Union plans to offer Ukraine more preferential terms of trade, effectively supporting the country's aspirations for early accession to the World Trade Organization and the transformation of its economy, a program oriented toward closer economic ties with the EU. Krzysztof Januszek, formerly Poland's WTO representative in Geneva and now Director of the Trade Policy Unit in the Economics Ministry, offered that Ukraine may well be ahead of Russia in its WTO accession bid. He thinks, however, that hopes for a final working group package by the Hong Kong ministerial are extremely optimistic. Januszek did say that political will in Kiev is very much in evidence, and that this is a major change in style, if not substance, since the Orange Revolution.

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COMMENT  
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10. (SBU) Uncertainties in the Ukrainian investment environment continue to limit business opportunities between the two neighbors. We also asked our Ukrainian contact about guesstimates for remittances from Ukrainians working in Poland. He politely demurred on venturing an amount, noting that the Polish Ministry of Economy Ukrainian Ministry of Labor in holding talks on the issue of work permits for Ukrainians currently working (illegally) and seasonally in Poland. In sum, bilateral trade and investment, although growing rapidly, do not yet represent large percentages of each nation's overall economic activity. However, as evidenced by continued Polish desire to bind Ukraine to the West through EU mechanisms, the WTO, and political support, money isn't everything. Long-standing historical links and desire to see Ukraine's democracy succeed insure that Poland will continue to be one of Ukraine's strongest supporters in Europe for some time to come. End Comment.